R4105-6A

The Conference Board

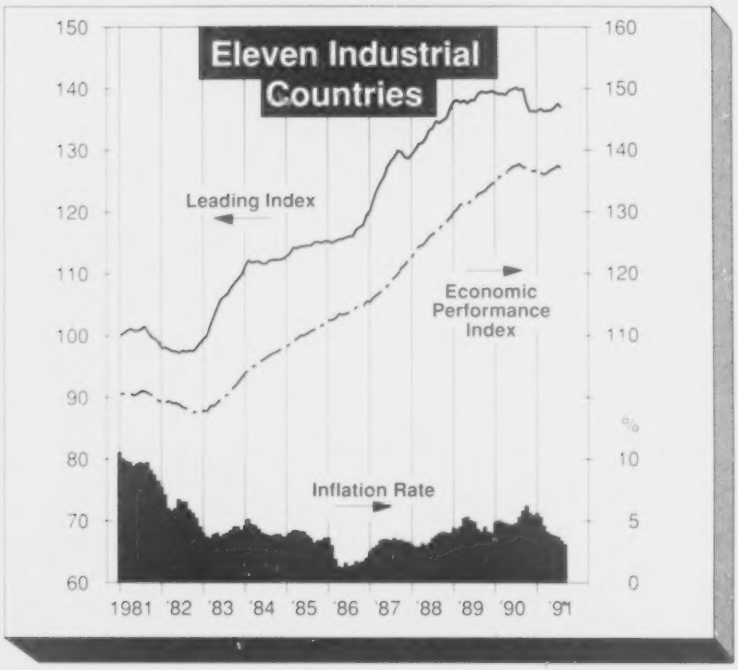
Volume 13, Number 11 November 1991

International Economic Scoreboard

INSIDE:

- **Global Recovery Muddled**
- **Big Three on Divergent Paths**
  - **U.S. Recovery Losing Momentum**
  - **Japan Headed Down**
  - **German Economy Flat**
- **Inflation Subsiding Almost Everywhere**
  - **Exceptions: Germany, Korea**

World Business Cycle



Summary of Growth Rates, Eleven Industrial Countries

	Ten-year Growth Rate 1976-86	Indexes of Economic Performance Growth Rates *			Leading Business Cycle Indexes Growth Rates *			Current Reading on the Cycle	Latest Month Covered
		6 mos ago	3 mos ago	Latest month	6 mos ago	3 mos ago	Latest month		
Eleven countries	3	-1	0	0	-2	-2	0	Recovery underway	Aug.
Ten countries (U.S. excl.)	3	3	3	2	-1	-3	-4	Expansion continuing, leaders weak	Aug.
North America (2)	3	-7	-5	-2	-5	-1	4	Recovery underway	Aug.
Europe (4)	2	3	2	1	1	1	1	Expansion continuing	Aug.
Pacific Region (5)	4	5	6	3	-2	-8	-10	Expansion continuing, leaders weak	Aug.
United States	3	7	-4	-1	-5	1	4	Recovery underway	Sept.
Canada	3	-7	-3	-2	-8	-2	0	Recession ending	Aug.
West Germany	2	7	5	2	5	0	0	Expansion continuing, leaders weak	Aug.
France	2	4	4	3	2	5	2	Expansion continuing	Aug./Sept.
United Kingdom	2	-3	-5	-4	-5	-1	0	Recession ending, leaders improving	Aug.
Italy	2	4	0	6	-2	1	2	Expansion continuing	July/Aug.
Japan	4	6	7	3	-2	-11	-13	Expansion slowing, leaders weak	Aug.
Korea, R.O.K.	7	8	5	6	1	0	6	Expansion continuing	Sept.
Australia	3	-10	-7	-8	-3	-1	2	Recession ending, leaders improving	Sept.
New Zealand	2	0	-2	-2	-5	-4	0	Recession continuing, leaders weak	June/Aug.
Taiwan, R.O.C.	8	5	6	4	6	12	9	Expansion continuing	Sept.

* Ratio of current month's index over the preceding 12 month average, expressed as a compound annual rate.

This publication is printed on recycled paper.

Copyright © 1991 by The Conference Board, Inc.

The Conference Board, 845 Third Avenue, New York, New York, 10022
The Conference Board Europe, Avenue Louise, 207 - Bte 5, B-1050 Brussels, Belgium
The Conference Board of Canada, 255 Smyth Road, Ottawa, Ontario, KIH-8M7

Overview

Global Recovery Muddled

The global business cycle has suddenly become confused. Although the leading indexes for most of the 11 industrial economies covered in this report look pretty much the same as they did a month or two ago, what had appeared to be a gradually developing recovery in the 11-country index has now faltered—at least for the moment.

The 3 percent plunge in the Japanese leading index (see story, page 4) is the dominant reason for the global standstill this month. In addition, however, the leading indexes of the two other large economies are going nowhere fast. After July, the United States index, which had been the pacesetter for the recovery, suddenly lost its upward momentum (story, page 4). And the German index continued the stagnation it has exhibited all year (story, page 5).

Elsewhere, the recent behavior of the early moving indexes is generally indecisive, with a slight positive tilt. Data revisions in the United Kingdom and Australia make their indexes look less favorable than before. Only Taiwan and Korea show strongly positive signals.

The good news is found in the inflation numbers. The 11-country rate is down to 3.1 percent, and ten of the 11 countries have recorded a slowdown over the past half year. The single exception (again this month) is West Germany, where the inflation rate has more than doubled since March.

Summary of Inflation Rates, Eleven Industrial Countries

	Ten-year Inflation Rate 1979-89	*6 mos.* ago*	*3 mos.* ago*	*Latest* month*	*Current Reading on Inflation*	*Latest Month Covered*
		annual rates, percent				
Eleven countries	5.3	4.6	3.8	3.1	Falling	Sept.
Ten countries (U.S. excl.)	5.2	4.6	3.8	3.3	Falling	Sept.
North America (2)	5.6	4.7	3.7	3.0	Falling	Sept.
Europe (4)	6.6	4.3	4.4	4.3	Steady	Sept.
Pacific Region (5)	3.4	4.3	2.8	1.9	Low and Falling	Sept.
United States	5.5	4.0	3.2	2.6	Falling	Oct.
Canada	6.5	7.3	5.8	3.8	Falling	Sept.
West Germany	2.9	2.2	3.4	4.6	Rising	Sept.
France	7.3	3.0	2.9	2.6	Falling	Sept.
United Kingdom	7.3	6.0	4.9	4.0	Falling	Sept.
Italy	11.2	6.7	6.4	5.6	Falling	Oct.
Japan	2.5	4.0	2.6	1.3	Low and Falling	Sept.
Korea, R.O.K.	8.1	11.5	8.4	9.1	High and Volatile	Sept.
Australia	8.4	4.4	2.4	1.8	Low and Falling	Aug.
New Zealand	11.8	3.9	2.1	1.4	Low and Falling	Aug.
Taiwan, R.O.C.	4.4	3.5	2.7	1.1	Low and Falling	Sept.

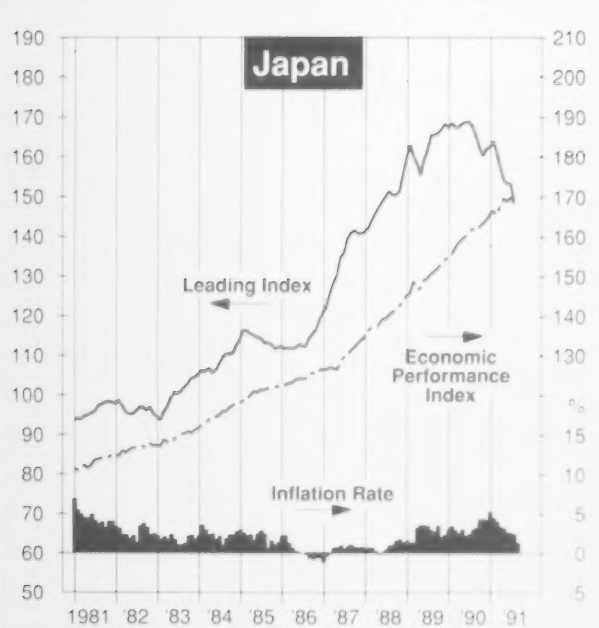
* Ratio of current month's index over the preceding 12 month average, expressed as a compound annual rate.

Analytical Anarchy

The United States leading index, after climbing briskly from March through July, leveled off in August and September. Accordingly, doubts about the staying power of the business cycle recovery have intensified, and evidence of a relapse into renewed recession—mentioned last month as being difficult to find—is now visible here and there: the October plunge in consumer expectations, for example.

Although public sentiment about the economy is almost universally negative, evidence on the optimistic side of the ledger is also to be found in the statistics—e.g., declining short-term interest rates and subsiding inflation. But most of the indicators are ambiguous as to the direction they point.

All this leaves forecasters thoroughly confused. The cyclical recovery had seemed safely underway, and it is entirely out of character for an upswing to lose momentum at such an early stage. Perhaps the historical pattern will reassert itself and the recovery will resume its slow but sure upward path. Alternatively, the pause may persist. Right now the signals from the leading index are equivocal and obscure. Stay tuned for new evidence next month!



Outlook Deteriorates Further

The cyclical outlook for Japan, which had already looked weak, has now turned conspicuously bad. At the latest report, revised data for the spring and early summer lowered the leading index by 4 percent, and now the August reading shows a further plunge of 3 percent. An increase in business failures coupled with declines in stock prices, housing starts, and new machinery orders, account for the sharp August drop.

Japanese officials are now discussing the probability of a "growth recession"—a half year or a year of slow or no growth in the economy. But the performance index suggests that such a period may already have begun, and a more serious cyclical episode—a full-fledged decline in economic activity—may be in the offing. The unfavorable economic omens are the most serious since the 1970s.

The inflation statistics look better than ever. Japan's rate is down to 1.3% as of September, from 4 percent last March, and the lowest rate but one (New Zealand) of the 11 industrial countries covered here.

Economy Cooling, Inflation Heating

After eight years of steady, vigorous expansion, the West German economy is cooling off. The leading index has been flat all year. At the moment, however, no serious weakness—nothing remotely comparable to the seriously negative portents seen in Japan—seems to be in sight. Among the components of the leading indexes the weakest indicators are working hours and company insolvencies. Other unhappy signs include high interest rates and rising inflation.

Those signals, in turn, are probably responsible for a large part of the recent decline in consumer confidence among West Germans. On the plus side, export orders, which had been declining since mid-1990, have stabilized recently and may be improving slightly.

The economy is cooling but not inflation, which is probably the most serious issue in Germany these days. Driven by the earlier strength in the economy and by rising wage rates, prices were climbing at a 4.6 percent in September, more than double the 2.2 percent inflation rate of last March.

THE INTERNATIONAL ECONOMIC INDICATOR SYSTEM

This publication is designed to help readers monitor the ups and downs of the business cycle around the world. To this end, three statistical series are shown for each country. One is the inflation rate, calculated from the consumer price index compiled by the official statistical agency. The other two are cyclical indexes—an index of economic performance and a leading index. All of the cyclical indexes are based on 1980=100. The economic performance indexes are composites of such series as real GNP, industrial production, employment and sales—what analysts call "coincident" series, because they define the business cycle.

The leading indexes are composites of such series as new orders, construction contracts, corporate profits and stock prices—indicators that usually anticipate changes in production and employment by several months. Thus the indexes of economic performance tell us the current status of the business cycle, i.e., where we are, while the leading indexes tell us where the economy is headed.

Experience has shown that when the leading index begins to rise faster, it is a fairly safe rule that the economy will soon begin to rise faster too — typically after three or four months. When the leading index begins to rise more slowly or to decline, the economy is likely to follow suit shortly thereafter. (For details, see Phillip A. Klein and Geoffrey H. Moore, *Monitoring Growth Cycles in Market-Oriented Countries*, Ballinger Publishing Co. 1985.) Considerable variation in the length of the lead is to be expected, however. Constant monitoring is needed to make effective use of the system and to get early warnings of recessions and recoveries, changes in foreign trade flows, and new inflationary trends.

The indexes were developed by Geoffrey H. Moore and Phillip A. Klein, and are maintained by the Center for International Business Cycle Research at the Columbia Business School. (The U.S. indexes used here differ slightly from the indexes reported monthly by the U.S. Department of Commerce.) To facilitate analysis the indexes are adjusted so their long-run growth rates are equal to those in real GNP in the country concerned. Growth rates are shown in the first column of the table on page 2.

For more information: David Chon, Editor

For more about this indicator system and the availability of detailed data for each country please address inquiries to: Center for International Business Cycle Research, Columbia Business School, New York, NY 10027 - Telephone: 212-280-2916.

INDEXES, WORLDWIDE AND BY REGION, 1990-91

		11 Countries		10 Countries excl. U.S.		North America (2)		Europe (4)		Pacific Region (5)	
		Indexes, 1980=100									
		Perf.	Lead.	Perf.	Lead.	Perf.	Lead.	Perf.	Lead.	Perf.	Lead.
Apr.	90	136	139	142	140	129	136	130	125	161	167
May	90	137	140	142	140	129	137	131	125	162	168
June	90	137	140	143	140	130	138	132	126	162	168
July	90	138	140	144	140	129	138	132	126	163	168
Aug.	90	138	140	144	140	129	138	133	126	164	167
Sept.	90	137	139	144	139	128	137	133	125	163	165
Oct.	90	137	138	144	138	127	135	133	125	164	162
Nov.	90	137	136	144	137	126	133	133	125	164	161
Dec.	90	137	136	145	138	125	133	133	125	165	162
Jan.	91	137	136	146	138	124	132	134	125	167	163
Feb.	91	136	137	146	138	123	132	134	126	167	164
Mar.	91	136	136	146	138	122	132	135	126	166	161
Apr.	91	136	136	146	137	123	133	134	126	168	159
May	91	137	136	147	136	123	134	134	126	170	156
June	91	137	137	147	136	123	135	135	127	169	156
July	91	138	138	147	136	123	137	136	127	169	156
Aug.	91	137	137	147	135	123	137	135	127	169	152
		Growth Rates, Percent									
Apr.	90	4	0	6	2	0	-2	6	2	8	3
May	90	4	1	6	2	1	-1	6	2	7	3
June	90	4	1	6	2	1	0	6	2	7	2
July	90	4	1	6	2	0	0	6	2	7	2
Aug.	90	3	1	5	1	0	0	6	2	6	0
Sept.	90	2	-1	4	-1	-1	-1	4	1	5	-2
Oct.	90	2	-2	4	-2	-2	-3	4	1	5	-5
Nov.	90	1	-4	3	-3	-4	-5	4	0	4	-6
Dec.	90	0	-4	3	-2	-5	-6	3	0	4	-4
Jan.	91	0	-3	4	-2	-6	-6	4	0	5	-3
Feb.	91	-1	-2	3	-1	-7	-5	3	1	5	-2
Mar.	91	-1	-3	2	-2	-7	-5	3	1	3	-4
Apr.	91	-1	-2	3	-2	-6	-3	2	2	4	-6
May	91	0	-2	3	-3	-5	-1	2	1	6	-8
June	91	0	-1	3	-3	-4	1	3	2	4	-8
July	91	1	0	3	-2	-2	3	3	2	4	-7
Aug.	91	0	0	2	-4	-2	4	1	1	3	-10
		Ten Year Annual Growth Rate, Percent									
		3	3	3	3	3	3	2	2	4	4

INDEXES, ELEVEN COUNTRIES, 1990-91

		United States		Canada		West Germany		France		United Kingdom		Italy		Japan		Korea, R.O.K.		Australia		New Zealand		Taiwan, R.O.C.	
		Indexes, 1980=100																					
		Perf.	Lead.	Perf.	Lead.	Perf.	Lead.	Perf.	Lead.	Perf.	Lead.	Perf.	Lead.	Perf.	Lead.	Perf.	Lead.	Perf.	Lead.	Perf.	Lead.	Perf.	Lead.
Apr.	90	128	138	135	119	126	130	145	130	129	118	118	117	159	168	236	225	150	126	114	116	192	239
May	90	128	139	134	118	127	130	146	130	129	118	119	117	160	169	234	227	150	126	114	117	194	238
June	90	129	139	134	119	127	130	146	131	129	118	119	116	160	169	235	225	150	125	114	116	192	235
July	90	128	139	134	119	128	131	148	132	129	117	120	117	162	169	237	226	149	124	113	116	192	234
Aug.	90	128	140	134	119	129	132	148	132	129	117	120	116	162	166	238	226	147	124	113	115	192	232
Sept.	90	128	139	133	118	129	132	148	130	129	117	120	114	162	165	238	234	145	124	113	115	193	230
Oct.	90	127	137	132	118	130	133	149	130	128	116	119	115	163	163	237	223	144	123	114	115	195	229
Nov.	90	126	135	131	116	130	133	149	130	128	115	120	114	164	160	237	233	141	123	114	114	195	236
Dec.	90	124	134	130	115	131	134	150	129	127	114	121	114	164	162	242	232	142	122	113	113	194	235
Jan.	91	123	134	128	114	133	135	151	130	126	114	122	114	166	163	248	234	143	122	113	113	197	239
Feb.	91	122	134	128	112	133	135	151	131	126	114	122	115	166	164	249	227	141	122	112	113	201	239
Mar.	91	122	134	128	113	134	135	151	132	126	114	122	115	166	161	249	230	138	122	112	112	199	243
Apr.	91	122	135	129	114	134	134	152	133	124	115	120	116	168	158	255	234	135	122	112	113	199	246
May	91	122	136	129	115	134	133	152	134	124	115	122	116	170	154	253	236	136	123	112	112	202	249
June	91	122	137	129	115	135	134	152	134	124	115	124	116	169	154	250	229	137	122	112	112	202	253
July	91	123	139	129	116	135	133	153	135	124	116	125	116	170	154	254	236	133	124		113	202	249
Aug.	91	123	139	129	116	134	134	153	134	123	115		116	169	149	258	241	137	124		113	202	252
Sept.	91	123	139						134							256	239	134	124			202	253
		Growth Rates, Percent																					
Apr.	90	0	-2	2	-7	6	3	7	1	4	1	4	0	9	4	12	3	2	-5	3	-2	0	5
May	90	1	0	1	-7	8	3	7	2	4	0	4	0	8	4	8	4	1	-4	4	-2	1	3
June	90	1	0	1	-6	6	3	7	4	3	0	4	-2	8	3	8	2	0	-5	3	-3	0	0
July	90	1	0	0	-5	8	4	8	5	2	-1	4	-1	8	2	8	2	-2	-5	2	-3	-1	-1
Aug.	90	0	0	-1	-3	8	4	7	3	1	-2	4	-2	8	0	8	2	-4	-4	0	-4	-1	-3
Sept.	90	-1	-1	-2	-4	6	4	6	1	1	-1	2	-5	6	-2	6	8	-6	-4	0	-4	0	-5
Oct.	90	-2	-3	-2	-4	6	4	6	0	0	-2	2	-3	6	-6	4	-2	-7	-5	1	-4	2	-5
Nov.	90	-4	-5	-4	-5	6	4	5	0	-1	-4	2	-4	6	-8	3	6	-9	-4	2	-4	1	0
Dec.	90	-5	-5	-5	-7	5	5	5	-1	-2	-4	3	-3	6	-5	6	4	-8	-5	0	-5	0	0
Jan.	91	-6	-6	-7	-8	8	5	6	0	-3	-5	4	-3	6	-4	10	5	-6	-5	-1	-4	4	2
Feb.	91	-7	-4	-7	-8	7	5	4	1	-3	-5	3	-2	6	-2	9	-1	-8	-3	-2	-5	7	2
Mar.	91	-7	-5	-6	-7	6	4	4	2	-3	-3	3	-1	4	-5	8	1	-10	-3	-2	-4	5	6
Apr.	91	-6	3	-4	-4	6	2	4	4	-5	-2	0	1	6	-8	12	5	-12	-2	-1	-3	5	8
May	91	-5	-1	-3	-2	5	0	4	4	-5	-1	3	1	7	-11	8	5	-10	0	-1	-4	6	10
June	91	-4	1	-3	-1	6	1	3	5	-4	-1	6	1	5	-10	5	0	-7	-1	-2	-3	6	12
July	91	-3	4	-2	0	5	0	4	5	-4	1	6	2	6	-9	8	4	-10	1		-1	5	8
Aug.	91	-2	4	-2	0	2	0	3	4	-4	0		2	3	-13	9	8	-4	2		0	4	9
Sept.	91	-1	4						2							6	6	-8	2			4	9
		Ten Year Annual Growth Rate, Percent																					
1976-86		3	3	3	3	2	2	2	2	2	2	2	2	4	4	7	7	3	3	2	2	8	8